

Muskegon Technical Academy

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2006

Muskegon Technical Academy

TABLE OF CONTENTS

Management's Discussion and Analysis.....	i - vii
Independent Auditors' Report.....	1
Basic Financial Statements	
School-wide Financial Statements	
Statement of Net Assets.....	2
Statement of Activities	3
Fund Financial Statements	
Governmental Funds	
Balance Sheet.....	4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	5
Statement of Revenues, Expenditures and Changes in Fund Balances	6
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	7
Statement of Fiduciary Assets and Liabilities.....	8
Notes to Financial Statements	9
Required Supplementary Information	
Budgetary Comparison Schedule—General Fund	21
Other Documents	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23

Muskegon Technical Academy

Management's Discussion and Analysis

This section of the Muskegon Technical Academy's annual financial report presents our discussion and analysis of the School's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School's financial statements which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Muskegon Technical Academy financially as a whole. The School-wide financial statements provide information about the activities of the whole School, presenting both an aggregate view of the School's finances and a longer-term view of those finances. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School's operations in more detail than the School-wide financial statements by providing information about the School's most significant fund—the General Fund. The remaining funds are the food service fund and the agency fund. The food service fund presents financial activities related to providing breakfast and lunch services to the students. The agency fund acts solely as an agent for the benefit of students and parents. The basic financial statements are comprised of the following elements:

Management's Discussion and Analysis (MD&A)

(Required Supplemental Information)

Basic Financial Statements

School-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for Major Funds

(Required Supplementary Information)

Reporting the School as a Whole—School-wide Financial Statements

The School-wide financial statements are designed to provide readers with a broad overview of the Muskegon Technical Academy's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of Muskegon Technical Academy's assets and liabilities, with the difference between the two reported as net assets. Over time increases or decreases in net assets may serve as a useful indicator of whether the financial position of the school is improving or deteriorating.

The Statement of Activities presents information showing how the school's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The relationship between revenues and expenses is the School's operating results. However, the School's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School, which encompass all of the School's services, including instruction, support services, community services, and food services. Unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Muskegon Technical Academy

Management's Discussion and Analysis

Reporting the School's Most Significant Funds—Fund Financial Statements

The School's fund financial statements provide detailed information about the most significant funds—not the School as a whole. Muskegon Technical Academy uses three funds – a General Fund, Food Service Fund and agency fund – at this time. The governmental funds of the School use the following accounting approach:

Governmental funds—All of the School's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation.

The School as a Whole

The following table provides a summary of the School's net assets as of June 30, 2006 and 2005.

Statement of Net Assets

	2006	2005
Assets		
Current and Other Assets	\$ 445,091	\$ 459,673
Capital Assets	2,439,262	2,595,976
Total Assets	2,884,353	3,055,649
Liabilities		
Current Liabilities	340,114	510,824
Long-term Liabilities	2,258,658	2,349,026
Total Liabilities	2,598,772	2,859,850
Net Assets		
Invested in Capital Assets, Net of Related Debt	87,596	147,787
Unrestricted	197,985	48,012
Total Net Assets	\$ 285,581	\$ 195,799

Recall that the Statement of Net Assets provides the perspective of the School as a whole. The significant changes from this year to last year were as follows:

- Current assets and current liabilities decreased as a result of a decrease in short term borrowing against state aid.
- Capital assets decreased because normal depreciation exceeded current year capital asset additions.

Muskegon Technical Academy

Management's Discussion and Analysis

The above table focuses on the net assets. The change in net assets of the School's governmental activities is discussed below. The School's net assets were \$285,581 at June 30, 2006. Capital assets, net of related debt was \$87,596, which compares the original cost (less depreciation) of the School's capital assets to long-term debt used to finance the acquisition of those assets. The remaining net asset of \$197,985 was unrestricted.

The \$197,985 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund (the School's largest fund) will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School as a whole are reported in the Statement of Activities, which shows the changes in net assets for fiscal years 2006 and 2005.

Statement of Activities

	2006	2005
Program Revenues		
Charges for Services	\$ 32,991	\$ 58,924
Operating Grants	373,961	357,376
General Revenues		
Grants and Contributions Not Restricted to Specific Programs	1,754,288	1,681,867
Miscellaneous	8,179	5,049
Total Program Revenues and General Revenues	2,169,419	2,103,216
Expenses		
Instruction	961,219	906,174
Support Services	664,793	601,973
Community Services	1,100	-
Food Services	91,888	83,268
Interest on Long-term Debt	175,741	209,480
Unallocated Depreciation and Amortization	184,896	186,528
Total Governmental Activities	2,079,637	1,987,423
Change in Net Assets	89,782	115,793
Net Assets at Beginning of Year	195,799	80,006
Net Assets at End of Year	\$ 285,581	\$ 195,799

Muskegon Technical Academy

Management's Discussion and Analysis

The School experienced an increase in net assets of \$89,782. Revenue increased \$66,203 primarily due to an increase in student population and the resulting increase in state aid. Expenditures increased by \$92,213. This increase was the result of a \$77,631 increase in support services. Support service expenses increased due to additional wages and fringe benefits related to a new position created during the year and normal inflationary pressures on other expenses. Interest expense decreased during the year due normal retirement of long-term debt and a decrease in the effective interest rate compared to last year.

Since unrestricted state aid constitutes the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School and balance those needs with state-prescribed available unrestricted resources.

The School's Funds

As we noted earlier, the School uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School's overall financial health.

In the General Fund, our principal operating fund, the fund balance increased \$77,934 to \$202,907. The primary reasons for the increase are as follows:

Revenues increased by \$74,112:

- Local revenues decreased due to a reclassification of fund raising activities to the agency funds.
- State sources increased due to an increase in state aid related to an increase in the student population.
- Federal grants increased during the year due to the School receiving a Title I school improvement grant.

Other Financing Sources (Uses) decreased by \$156,223.

- Other financing sources in the prior year included proceeds from long-term loans. There were no loans in the current year.

Expenditures decreased by \$78,847.

- Instruction expenditures decreased due to a drop in capital outlay. The prior year included approximately \$67,000 in computer purchases.
- Support services increased as a result of the addition of a new director of career services position.
- Debt service decreased due to lower required principal and interest payments during the year. The interest expenditure decrease was the result of lower outstanding principal and a reduction in the interest rate associated with the building loans as a result of last year's loan refinancing activities.

Muskegon Technical Academy

Management's Discussion and Analysis

General Fund Budgetary Highlights

Over the course of the year, the School revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. (A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information section of these financial statements).

There were several revisions made to the 2005-2006 General Fund's original budget:

Revenues:

- Local source revenues were decreased due to reclassification of student fundraising to the Agency Fund.
- Federal revenues were increased due to the School receiving a Title I School improvement grant.

Expenditures:

- There were various small adjustments to the expenditure budget. The overall increase in the expenditure budget was \$15,626.

Budget to Actual variances

Revenues:

- Federal revenues decreased due to not utilizing all anticipated revenues by the end of the year.

Expenditures:

- Basic program expenditures were under budget due to various expenditures being slightly less than anticipated.

Muskegon Technical Academy

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the School had \$2,439,262 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$156,714 from last year. This year's decrease was the result of depreciation exceeding current year capital asset additions. We present more detailed information about our capital assets in the notes to the financial statements.

	<u>2006</u>	<u>2005</u>
Buildings and Land	\$ 2,418,300	\$ 2,418,300
Furniture and Equipment	590,850	563,334
Construction-in-Progress	<u>18,750</u>	<u>18,750</u>
Total Capital Assets	3,027,900	3,000,384
Less Accumulated Depreciation	<u>588,638</u>	<u>404,408</u>
Total Capital Assets, Net	<u>\$ 2,439,262</u>	<u>\$ 2,595,976</u>

Debt

At June 30, 2006, the School had \$2,282,163 in debt relating to its building. The decrease in long-term liabilities was the result of normal required debt payments. The School did not incur any long-term liabilities during the year.

	<u>2006</u>	<u>2005</u>
Mortgages	\$ 2,282,163	\$ 2,328,117
Other Obligations	<u>81,495</u>	<u>230,909</u>
Total Debt	<u>\$ 2,363,658</u>	<u>\$ 2,559,026</u>

Economic Factors and Next Year's Budget

Our appointed officials and administration considered many factors when setting the School's 2006 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation allowance is determined by multiplying the blended student count by the per pupil foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The original 2007 budget was adopted in June 2006, based on an estimate of students to be enrolled in September 2006. The budget adopted for the 2006-2007 school year is projecting a small increase in the student population and a small increase in the per pupil foundation allowance. The original budget for fiscal year 2007 is projecting an increase in fund balance for the year.

Muskegon Technical Academy

Management's Discussion and Analysis

Approximately 92 percent of total General Fund revenue comes from the state foundation allowance. As a result, direct funding is heavily dependent on the state's ability to fund local school operations. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate that the fall student count will be near the estimates used in creating the fiscal 2007 budget. Once the final student count and related per pupil funding is validated, state law requires the School to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School's revenue is heavily dependent on state funding and the health of the state's School Aid Fund, the actual revenue received depends on the state's ability to collect revenues to fund its appropriation to Schools.

The School has entered into a contract to expand the School building. The contract amount is approximately \$350,000. The construction should start during the summer of 2006.

The School will also be obtaining a state aid anticipation note.

Request for Information

This financial report is designed to provide a general overview of Muskegon Technical Academy's finances for those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Muskegon Technical Academy, 2900 E. Apple Avenue, Muskegon, MI 49442, and (231) 777-3682.

BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

August 11, 2006

Board of Education
Muskegon Technical Academy
Muskegon, Michigan


We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Muskegon Technical Academy, as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Muskegon Technical Academy's management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Muskegon Technical Academy, as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2006, on our consideration of Muskegon Technical Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - vii and page 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Muskegon Technical Academy
STATEMENT OF NET ASSETS
June 30, 2006

ASSETS	
	Governmental activities
CURRENT ASSETS	
Cash and cash equivalents	\$ 58,698
Due from other governmental units	374,401
Total current assets	433,099
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	118,750
Depreciable	2,320,512
Debt issuance costs, net	11,992
Total noncurrent assets	2,451,254
Total assets	2,884,353
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
State aid loan	42,094
Accounts payable and accrued liabilities	179,865
Due to other governmental units	13,155
Mortgages and other obligations, due within one year	105,000
Total current liabilities	340,114
NONCURRENT LIABILITIES	
Mortgages and other obligations, less amounts due within one year	2,258,658
Total liabilities	2,598,772
NET ASSETS	
Invested in capital assets, net of related debt	87,596
Unrestricted	197,985
Total net assets	\$ 285,581

The accompanying notes are an integral part of this statement.

Muskegon Technical Academy
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expenses) Revenue and Changes in Net Assets
		Charges for services	Operating grants and contributions	Governmental activities
Governmental activities				
Instruction	\$ 961,219	\$ 11,558	\$ 269,906	\$ (679,755)
Support services	664,793	-	25,142	(639,651)
Community services	1,100	-	-	(1,100)
Food services	91,888	21,433	78,913	8,458
Interest on long-term debt	175,741	-	-	(175,741)
Unallocated depreciation and amortization	184,896	-	-	(184,896)
Total governmental activities	<u>\$ 2,079,637</u>	<u>\$ 32,991</u>	<u>\$ 373,961</u>	(1,672,685)
General revenues				
Grants and contributions not restricted to specific programs				1,754,288
Miscellaneous				<u>8,179</u>
Total general revenues				<u>1,762,467</u>
Change in net assets				89,782
Net assets at July 1, 2005				<u>195,799</u>
Net assets at June 30, 2006				<u>\$ 285,581</u>

The accompanying notes are an integral part of this statement.

Muskegon Technical Academy
BALANCE SHEET
 Governmental Funds
 June 30, 2006

	General Fund	Other governmental funds	Total governmental funds
ASSETS			
Cash and cash equivalents	\$ 48,934	\$ 9,764	\$ 58,698
Due from other governmental units	<u>374,401</u>	<u>-</u>	<u>374,401</u>
Total assets	<u><u>\$ 423,335</u></u>	<u><u>\$ 9,764</u></u>	<u><u>\$ 433,099</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities			
State aid loan	\$ 42,094	\$ -	\$ 42,094
Accounts payable	18,215	-	18,215
Accrued liabilities	146,964	-	146,964
Due to other governmental units	<u>13,155</u>	<u>-</u>	<u>13,155</u>
Total liabilities	220,428	-	220,428
Fund balances			
Unreserved			
General Fund	202,907	-	202,907
School service	<u>-</u>	<u>9,764</u>	<u>9,764</u>
Total fund balances	<u>202,907</u>	<u>9,764</u>	<u>212,671</u>
Total liabilities and fund balances	<u><u>\$ 423,335</u></u>	<u><u>\$ 9,764</u></u>	<u><u>\$ 433,099</u></u>

The accompanying notes are an integral part of this statement.

Muskegon Technical Academy
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2006

Total fund balance—governmental funds	\$	212,671
---------------------------------------	----	---------

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.

Cost of capital assets	\$ 3,027,900	
Accumulated depreciation	<u>(588,638)</u>	2,439,262

Debt issuance costs are not capitalized and amortized in the governmental funds.

Debt issuance costs	13,324	
Accumulated amortization	<u>(1,332)</u>	11,992

Accrued interest in governmental activities is not reported in the governmental funds.		(14,686)
--	--	----------

Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.

(2,363,658)

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>285,581</u></u>
--	----	-----------------------

The accompanying notes are an integral part of this statement.

Muskegon Technical Academy
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2006

	General Fund	Other governmental funds	Total governmental funds
REVENUES			
Local sources			
Fees and charges	\$ -	\$ 13,381	\$ 13,381
Other	19,737	-	19,737
Total local sources	19,737	13,381	33,118
State sources	1,886,035	4,364	1,890,399
Federal sources	162,950	82,602	245,552
Total revenues	2,068,722	100,347	2,169,069
EXPENDITURES			
Instruction	974,803	-	974,803
Support services	668,261	-	668,261
Community services	1,100	-	1,100
Food services	-	91,888	91,888
Debt service			
Principal	162,035	-	162,035
Interest	174,475	-	174,475
Total expenditures	1,980,674	91,888	2,072,562
Excess (deficiency) of revenues over (under) expenditures	88,048	8,459	96,507
OTHER FINANCING SOURCES (USES)			
Transfers from other governmental units and other transactions	350	-	350
Transfers to other governmental units and other transactions	(10,464)	-	(10,464)
Total other financing sources (uses)	(10,114)	-	(10,114)
Net change in fund balances	77,934	8,459	86,393
Fund balances at July 1, 2005	124,973	1,305	126,278
Fund balances at June 30, 2006	\$ 202,907	\$ 9,764	\$ 212,671

The accompanying notes are an integral part of this statement.

Muskegon Technical Academy
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2006

Net change in fund balances—total governmental funds	\$	86,393
--	----	--------

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and debt issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (184,896)	
Capital outlay	<u>27,516</u>	(157,380)

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		162,035
--	--	---------

Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		<u>(1,266)</u>
---	--	----------------

Change in net assets of governmental activities	\$	<u><u>89,782</u></u>
---	----	----------------------

The accompanying notes are an integral part of this statement.

Muskegon Technical Academy
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2006

	<u>Agency funds</u>
ASSETS	
Cash and cash equivalents	\$ <u><u>12,973</u></u>
 LIABILITIES	
Deposits held for others	\$ <u><u>12,973</u></u>

The accompanying notes are an integral part of this statement.

Muskegon Technical Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Muskegon Technical Academy (School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

Reporting Entity

The School is governed by an appointed five to nine member Board of Directors (Board), which has responsibility and control over all activities related to public school education within the School. The School receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

School-wide and Fund Financial Statements

School-wide Financial Statements – The primary focus of school-wide financial statements is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities. The school-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements. The school-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

In the school-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The school-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general revenues (certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School does not allocate indirect costs.

Muskegon Technical Academy
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

School-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from school-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School functions typically are financed. The acquisition, use and balances of the School's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School reports the following major governmental funds:

- The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School accounts for its food service activities in a school service special revenue fund.

Fiduciary funds – Fiduciary funds account for assets held by the School in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the school-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School holds for others in an agency capacity (primarily student activities).

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The school-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Muskegon Technical Academy
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to schools based on information supplied by the school. For the year ended June 30, 2006, the Foundation allowance was based on pupil membership counts taken in February and September of 2005.

The School also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School intends to hold the investment until maturity.

Muskegon Technical Academy
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deposit and Investments—Continued

State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School had no advances between funds.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	10-30 years
Furniture and equipment	3-7 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Muskegon Technical Academy
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Long-term Obligations

In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

Net Assets In School-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Muskegon Technical Academy
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue fund. All annual budgets lapse at year end.

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The President submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain constituent comments.
3. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. Formal budgetary integration is employed as a management control device during the year.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The School does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2006, the School did have significant budget variations. These budget variations are the result of budgeting errors and omissions. These budget variations are highlighted in the required supplementary information.

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The School has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School's concentration of credit risk policy seeks to minimize loss by diversifying the investment portfolio so the impact of potential losses from any one type of security or issuer will be minimized. Concentration of credit risk is the risk of loss attributed to the magnitude of the School investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Muskegon Technical Academy
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Custodial credit risk - deposits. The School's custodial credit risk policy for deposits seeks to minimize custodial credit risk by pre-qualifying financial institutions based upon various criteria. In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2006, \$33,241 of the School's bank balance of \$133,241 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The School's custodial credit risk policy for investments seeks to minimize custodial credit risk by limiting investments to those authorized by their investment policy and by pre-qualifying financial institutions, broker/dealers, intermediaries and advisors based upon various criteria.. This is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The School is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 100,000	\$ -	\$ -	\$ 100,000
Construction in progress	18,750	-	-	18,750
Total capital assets, not being depreciated	118,750	-	-	118,750
Capital assets, being depreciated:				
Buildings and improvements	2,318,300	-	-	2,318,300
Furniture and equipment	563,334	27,516	-	590,850
Total capital assets, being depreciated	2,881,634	27,516	-	2,909,150
Less accumulated depreciation:				
Buildings and improvements	175,422	77,587	-	253,009
Furniture and equipment	228,986	106,643	-	335,629
Total accumulated depreciation	404,408	184,230	-	588,638
Total capital assets, being depreciated, net	2,477,226	(156,714)	-	2,320,512
Capital assets, net	\$ 2,595,976	\$ (156,714)	\$ -	\$ 2,439,262

Depreciation

Depreciation expense has been charged as unallocated depreciation.

Muskegon Technical Academy
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE E—DEBT ISSUANCE COSTS

Debt issuance cost activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Debt issuance costs	\$ 13,324	\$ -	\$ -	\$ 13,324
Less accumulated amortization	<u>666</u>	<u>666</u>	<u>-</u>	<u>1,332</u>
Debt issuance costs, net	<u>\$ 12,658</u>	<u>\$ (666)</u>	<u>\$ -</u>	<u>\$ 11,992</u>

Amortization

Amortization expense has been charged as unallocated amortization.

NOTE F—SHORT-TERM DEBT

The School issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School. The short-term debt activity for the year ended June 30, 2006 follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
State aid anticipation note				
2004/2005 5.25% due August 2005	\$ 137,036	\$ -	\$ 137,036	\$ -
2005/2006 6.31% due July 2006	<u>-</u>	<u>412,000</u>	<u>369,906</u>	<u>42,094</u>
	<u>\$ 137,036</u>	<u>\$ 412,000</u>	<u>\$ 506,942</u>	<u>\$ 42,094</u>

The School has available a revolving line of credit with borrowing limited to \$450,000 and interest at prime less one-eighth of one percent.

Muskegon Technical Academy
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE G—LONG-TERM OBLIGATIONS

The School issues notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. The notes are direct obligations and pledge the full faith and credit of the School.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within one year
Governmental activities:					
Mortgages	\$ 2,328,117	\$ -	\$ 45,954	\$ 2,282,163	\$ 62,179
Installment purchase agreement	176,059	-	127,731	48,328	19,720
Capital lease	54,850	-	21,683	33,167	23,101
	<u>\$ 2,559,026</u>	<u>\$ -</u>	<u>\$ 195,368</u>	<u>\$ 2,363,658</u>	<u>\$ 105,000</u>

Mortgages consist of the following:

Mortgage payable in monthly installments of \$6,441 including interest at 6.125% (prime less 1/8%); final payment of approximately \$826,000 due January 2010

\$ 928,917

Mortgage payable in monthly installments of \$7,330 including interest varying from 6.34% to 6.84%; final payment of approximately \$805,000 due January 2010

916,950

Mortgage payable in monthly installments of \$3,764 including interest at 8%; final payment of approximately \$396,000 due December 2009

436,296

Installment purchase agreement

Furniture installment loan payable in monthly installments of \$1,796 including interest at 5%; final payment due September 2008

48,328

Muskegon Technical Academy
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE G—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Governmental activities:—Continued

Capital lease

Capital lease obligation, secured by computer equipment, payable in monthly installments of \$2,045 including interest at 6.35%; final payment due November 2007	\$ <u>33,167</u>
Total long-term obligation	\$ <u><u>2,363,658</u></u>

The annual requirements of principal and interest to amortize obligations outstanding as of June 30, 2006 follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 105,000	\$ 151,322	\$ 256,322
2008	98,526	143,668	242,194
2009	79,393	137,079	216,472
2010	<u>2,080,739</u>	<u>90,175</u>	<u>2,170,914</u>
	\$ <u><u>2,363,658</u></u>	\$ <u><u>522,244</u></u>	\$ <u><u>2,885,902</u></u>

NOTE H—COMMITMENTS AND CONTINGENCIES

Commitments

- **Construction contracts** - As of June 30, 2006, the School had awarded construction contracts totaling approximately \$350,000 of which no expenditures had been incurred. The construction costs will be financed with an existing mortgage on the building.
- **Operating leases** - The School has lease agreements expiring at various dates through October 2007. Expense for the year ended June 30, 2006 was approximately \$13,000. The following is a schedule of future minimum rental payments required under operating leases for the School office equipment.

Year ending June 30,	Total
2007	\$ 9,218
2008	<u>2,796</u>
	\$ <u><u>12,014</u></u>

Muskegon Technical Academy
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—COMMITMENTS AND CONTINGENCIES—Continued

Contingencies

- **Federal programs** - The School participates in federally-assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Based upon prior experience and audit results, the School believes it is not likely it will incur significant losses on possible grant disallowances.

NOTE I—OTHER INFORMATION

Economic dependence - The School does not have the ability to levy property taxes and a majority of School revenues came from the State of Michigan.

Risk management - The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

Management services agreement - The School leases its employees from an employee leasing company (Company). Expenditures for employee costs such as salaries and wages, payroll taxes, and benefits under the management services agreements have been recorded and reported in conformance with the State of Michigan's standard chart of accounts.

Defined contribution plan - The Company maintains a defined contribution plan covering substantially all of the leased employees. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. Contributions and costs are determined as 6 percent of each covered employee's salary. For the year ended June 30, 2006, the contributions totaled approximately \$51,000.

NOTE J—SUBSEQUENT EVENT

State Aid Note

In August 2006, the School received the proceeds of a \$200,000 State of Michigan (State) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in July 2007 and bears interest at the rate of 4.95 percent per annum. The School pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit, and resources of the School.

REQUIRED SUPPLEMENTARY INFORMATION

Muskegon Technical Academy
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 36,000	\$ 19,300	\$ 19,737	\$ 437
State sources	1,881,000	1,882,700	1,886,035	3,335
Federal sources	161,097	184,282	162,950	(21,332)
Incoming transfers and other transactions	2,000	6,122	350	(5,772)
	2,080,097	2,092,404	2,069,072	(23,332)
EXPENDITURES				
Instruction				
Basic programs	748,803	765,958	749,433	16,525
Added needs	251,071	232,283	225,370	6,913
Support services				
Pupil	136,765	120,328	115,047	5,281
Instructional staff	23,138	37,363	25,645	11,718
General administration	276,427	280,410	276,773	3,637
School administration	-	-	1,776	(1,776)
Business	99,062	80,806	74,851	5,955
Operations and maintenance	159,181	150,081	146,263	3,818
Pupil transportation services	3,000	6,000	5,614	386
Central	15,000	32,700	22,292	10,408
Community services	-	1,100	1,100	-
Debt service				
Principal	162,407	162,407	162,035	372
Interest	152,474	174,018	174,475	(457)
Outgoing transfers and other transactions	20,000	19,500	10,464	9,036
Total expenditures	2,047,328	2,062,954	1,991,138	71,816
Excess (deficiency) of revenues over expenditures	32,769	29,450	77,934	48,484
OTHER FINANCING USES				
Transfers out	(3,000)	-	-	-
Net change in fund balance	\$ 29,769	\$ 29,450	77,934	\$ 48,484
Fund balances at July 1, 2005			124,973	
Fund balances at June 30, 2006			\$ 202,907	

OTHER DOCUMENTS

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

August 11, 2006

Board of Directors
Muskegon Technical Academy
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Muskegon Technical Academy as of and for the year ended June 30, 2006, which collectively comprise Muskegon Technical Academy's basic financial statements and have issued our report thereon dated August 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Muskegon Technical Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Muskegon Technical Academy's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable condition has been reported to the management of Muskegon Technical Academy in a separate letter dated August 11, 2006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition describe above is a material weakness.

BRICKLEY DELONG

Board of Directors

August 11, 2006

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muskegon Technical Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances on noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

August 11, 2006

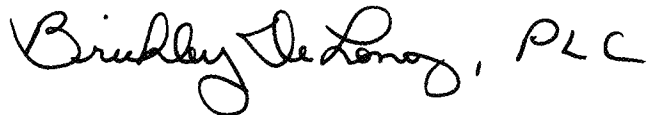
Board of Directors
Muskegon Technical Academy
Muskegon, Michigan

In planning and performing our audit of the financial statements of the Muskegon Technical Academy for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving internal controls and its operation that we consider to be reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Muskegon Technical Academy's ability to initiate, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We have attached such a reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe the reportable condition is a material weakness.

This report is intended for the information and use of the Board of Directors, management, and federal awarding agencies, pass-through entities and others within administration and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Brickley DeLong, PLC in cursive script.

REPORTABLE CONDITIONS

Recommendation 1: The internal control procedures should be further segregated.

Small organizations with limited resources and personnel inherently have difficulty establishing and maintaining an accounting system with strong internal accounting controls including significant segregation of duties.

The School should continue using its current accounting system, but seek opportunities to further segregate duties and strengthen internal controls. Often, the most effective approach is the expansion of documented approval of transactions and reconciliations by a School Board member or Chief Executive Officer.